

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HOLLY CREEK)
PRODUCTION CORPORATION)
PURSUANT TO KRS 278.485 AND 807)
KAR 5:026 FOR AN ADJUSTMENT OF) CASE NO. 2007-00007
ITS RETAIL RATES FOR GAS)
SERVICE PROVIDED BY ITS FARM)
TAP SYSTEM)

ORDER

On January 2, 2007, Holly Creek Production Corporation ("Holly Creek") filed an application to increase its retail rate pursuant to 807 KAR 5:076, the Commission's regulation governing alternative rate filing ("ARF") applications. On January 19, 2007, Holly Creek withdrew its ARF application. Subsequently, on February 12, 2007, Holly Creek filed an amended application pursuant to KRS 278.485 and 807 KAR 5:026, the statute and regulation governing the service gathering systems that provide service to retail customers who have tapped onto such systems ("farm tap customers"). In addition to information provided in its amended application, Holly Creek supplied answers to Commission Staff information request. There were no intervenors in this case.

BACKGROUND

KRS 278.485 requires gas gathering systems to provide service, upon request, to customers whose property is located within one-half air-mile of the company's producing gas well(s) or gas gathering pipeline(s). Holly Creek has 45 such farm tap customers receiving service in southern Wolfe and northern Breathitt counties in

Kentucky. Holly Creek states that due to the increase in the market price of gas since the time of its last rate increase in 2002, it must adjust its farm tap rates. Holly Creek proposes the following increase in its farm tap rates:

	<u>Current</u>	<u>Proposed</u>	<u>% Increase</u>
Minimum Bill (2 Mcf)	\$11.80	\$21.38	81.2%
All Additional Mcf	\$5.90	\$10.69	81.2%

807 KAR 5:026, Section 9, allows a farm tap operator to request an adjustment in retail rates if: (1) the percentage change in rates does not exceed the percentage change in the price index during the most recent 12-month period immediately preceding the date the proposed tariff is filed;¹ and (2) the proposed rate does not exceed the highest average volumetric rate of a local gas distribution utility approved by the commission and in effect on the date the proposed tariff is filed. The percentage change in the price index during the most recent 12-month period immediately preceding the proposed tariff was a 33.7 percent decrease. Holly Creek's proposal, which represents an increase of 81.2 percent, exceeds this percentage change in the price index. If this situation occurs, the regulation requires the farm tap operator to provide its costs to provide service during the previous 2 years, current within 90 days of the date the proposed tariff is filed.

Holly Creek supplied an analysis of its administrative and proposed gas costs but, rather than strictly applying the criteria set forth in 807 KAR 5:026, it proposed to use Platts' 12-month Columbia Gas Transmission Corporation Appalachian Index as

¹ 807 KAR 5:026 defines price index as the average of the producer price index-utility natural gas (PPI-05) for the most recent 12-month period as published monthly by the United States Department of Labor, Bureau of Labor Statistics.

reported by the Federal Energy Regulatory Commission to calculate the gas cost portion of its rate.² As the Commission has approved this pricing mechanism in prior farm tap cases, the most recent being Case No. 2006-00460,³ we will continue to accept this method in determining the rates for Holly Creek's farm tap customers.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the rates, charges, and terms in the Appendix to this Order are fair, just, and reasonable, in the public interest, and should be approved effective with the date of this Order.

IT IS THEREFORE ORDERED that:

1. Holly Creek's proposed rate is approved.
2. The rates in the Appendix, attached hereto and incorporated herein, are approved for service rendered on and after the date of this Order.
3. Within 20 days of the date of this Order, Holly Creek shall file with this Commission its revised tariff showing the effective date, the date of issue, and a statement that it is issued pursuant to this Order.

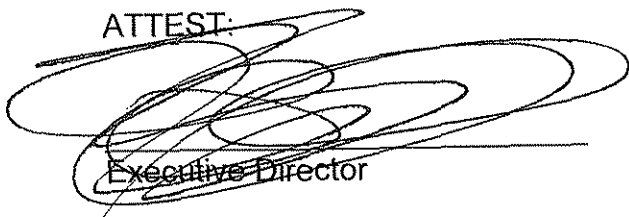
² The gas cost component of the proposed rate, based on the Columbia Gas Transmission Corporation Appalachian Index, is \$8.43 per Mcf.

³ Case No. 2006-00460, Application of G.S. Knox Gas Company to Increase its Rates and Charges for Providing Farm Tap Service to KRS 278.485, Order dated January 12, 2007.

Done at Frankfort, Kentucky, this 31st day of May 2-07.

By the Commission

ATTEST:

A large, complex handwritten signature in black ink, consisting of multiple overlapping loops and lines, covering the text 'Executive Director'.

Executive Director

Case No. 2007-00007

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00007 DATED May 31st 2007.

The following rates and charges are prescribed for the customers served by Holly Creek Production Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Minimum Bill (2 Mcf)	\$ 21.38
All Additional Mcf	\$ 10.69

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